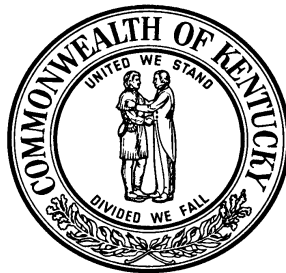


**REPORT OF THE AUDIT OF THE  
EDMONSON COUNTY  
CLERK**

**For The Year Ended  
December 31, 2009**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE EDMONSON COUNTY CLERK**

**For The Year Ended  
December 31, 2009**

The Auditor of Public Accounts has completed the Edmonson County Clerk's audit for the year ended December 31, 2009. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees decreased by \$48,824 from the prior year, resulting in a deficit of \$4,522 as of December 31, 2009. Revenues decreased by \$7,349 from the prior year and expenditures increased by \$41,475.

#### **Report Comments:**

- 2009-01 The County Clerk's Office Should Strengthen Internal Controls Over Payroll
- 2009-02 The County Clerk Should Eliminate The Deficit Of \$4,522 In His Fee Account With A Deposit Of Personal Funds
- 2009-03 The Clerk's Office Should Pay Overtime For Hours Worked Over Forty Hours During A Week
- 2009-04 The County Clerk Overspent The Maximum Amount For Deputies And Assistants Set By Fiscal Court By \$21,163
- 2009-05 The County Clerk's Office Had Unsupported Payroll Disbursements Of \$24,600

#### **Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable N. E. Reed, Edmonson County Judge/Executive  
The Honorable Larry Carroll, Edmonson County Clerk  
Members of the Edmonson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Edmonson County, Kentucky, for the year ended December 31, 2009. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2009, in conformity with the regulatory basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



The Honorable N. E. Reed Edmonson County Judge/Executive  
The Honorable Larry Carroll, Edmonson County Clerk  
Members of the Edmonson County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated July 14, 2010 on our consideration of the Edmonson County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2009-01 The County Clerk's Office Should Strengthen Internal Controls Over Payroll
- 2009-02 The County Clerk Should Eliminate The Deficit Of \$4,522 In His Fee Account With A Deposit Of Personal Funds
- 2009-03 The Clerk's Office Should Pay Overtime For Hours Worked Over Forty Hours During A Week
- 2009-04 The County Clerk Overspent The Maximum Amount For Deputies And Assistants Set By Fiscal Court By \$21,163
- 2009-05 The County Clerk's Office Had Unsupported Payroll Disbursements of \$24,600

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Edmonson County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

July 14, 2010



EDMONSON COUNTY  
LARRY CARROLL, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2009

Revenues

State Fees For Services	\$	4,026
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State Revenue Supplement		57,376
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Fiscal Court		5,280
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	396,736
------------------------	----	---------

Usage Tax		398,692
-----------	--	---------

Tangible Personal Property Tax		793,761
--------------------------------	--	---------

Other-

Fish and Game Licenses		8,377
------------------------	--	-------

Marriage Licenses		3,347
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Occupational Licenses		23
-----------------------	--	----

Deed Transfer Tax		20,489
-------------------	--	--------

Delinquent Tax	197,290	1,818,715
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		7,100
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Real Estate Mortgages		23,098
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Chattel Mortgages and Financing Statements		27,636
--	--	--------

Powers of Attorney		1,520
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All Other Recordings		16,380
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Charges for Other Services-

Fax		833
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Postage		801
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Candidate Filing Fees		1,550
-----------------------	--	-------

Copywork	2,400	81,318
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Other:

Nonsufficient Fund Checks Redeposited		8,393
---------------------------------------	--	-------

Affordable Housing		20,520
--------------------	--	--------

Overdeposit		488
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Reimbursements		1,137
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Bank Charges		20
--------------	--	----

Library and Archives	3,048	33,606
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The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY  
 LARRY CARROLL, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2009  
 (Continued)

Revenues (Continued)

Interest Earned	\$	792
Total Revenues		2,001,113

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	265,064
Usage Tax		386,671
Tangible Personal Property Tax		315,222

Licenses, Taxes, and Fees-

Fish and Game Licenses		8,144
Delinquent Tax		23,278
Legal Process Tax		12,751
	\$	1,011,130

Payments to Fiscal Court:

Tangible Personal Property Tax		93,964
Delinquent Tax		24,627
Deed Transfer Tax		19,465
Tax Bill Preparation		2,855
		140,911

Payments to Other Districts:

Tangible Personal Property Tax		352,991
Delinquent Tax		90,082
		443,073

Payments to Sheriff 16,053

Payments to County Attorney 26,425

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries		104,308
Printing and Binding Labor		24,600

Employee Benefits-

Employer's Share Social Security		13,498
Employer's Share Retirement		27,072
Employer's Paid Health Insurance		12,163

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY  
 LARRY CARROLL, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2009  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay (Continued):

Contracted Services-			
Advertising	\$	75	
Printing and Binding		12,299	
Accounting		6,125	
Technical Support		12,000	
Materials and Supplies-			
Office Supplies		7,922	
Other Charges-			
Telephone		1,918	
Conventions and Travel		2,837	
Dues		25	
Postage		1,500	
Election Commission		250	
Office Cleaning		1,850	
Affordable Housing		20,520	
Audit		8,300	
Capital Outlay-			
Office Equipment		<u>18,735</u>	\$ 275,997
Miscellaneous:			
Repairs		363	
Refunds		1,645	
Reimbursements		610	
Nonsufficient Fund Checks		<u>8,212</u>	<u>10,830</u>
Total Expenditures			<u>\$ 1,924,419</u>
Net Revenues			76,694
Less: Statutory Maximum			<u>74,088</u>
Excess Fees			2,606
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>3,528</u>	<u>7,128</u>
Fund Deficit at Completion of Audit			<u><u>\$ (4,522)</u></u>

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2009 services
- Reimbursements for 2009 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

EDMONSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2009  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the first six months and 16.16 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Edmonson County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Edmonson County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

EDMONSON COUNTY  
LARRY CARROLL, COUNTY CLERK  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2009

Assets

Cash in Bank	\$ 55,529	
Receivables	25,410	
	<hr/>	
Total Assets		<hr/> \$ 80,939

Liabilities

Paid Obligations:

Outstanding Checks	\$ 3,186
Uasge Tax Account	1,977
US Treasury-	
Federal Tax Withholdings	3,893
State Treasurer-	
Motor Vehicle Licenses (Week 52)	1,917
Legal Process Tax	1,029
Affordable Housing	4,782
State Tax	775
Tangible Personal Property Tax-	
Kentucky Revenue Cabinet	20,390
Fiscal Court	5,450
Library Distric	1,116
Ambulance District	3,188
Edmomson Board of Education	16,031
City of Brownsville	133
Deliquent Tax-	
Kentucky Revenue Cabinet	700
Library Distric	161
Ambulance District	334
Ambulance District (August)	3,634
Edmomson Board of Education	1,957
Fiscal Court	653
Edmomson County Sheriff	130
Edmomson County Attorney	752

EDMONSON COUNTY  
LARRY CARROLL, COUNTY CLERK  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS  
December 31, 2009  
(Continued)

Liabilities (Continued)

Paid Obligations: (Continued)

Fiscal Court-

Deed Tax	\$	3,256
Retirement		3,720
Advertising		75
Close out Supplemental Account		610
City of Brownsville (Payroll)		496
NSF Check		220

Total Paid Obligations \$ 80,565

Unpaid Obligations:

Fish & Wildlife	54
Due to 2009 Fee Account from 2010 Fee Account for Payment of Week 53 License Report	4,842

Total Unpaid Obligations 4,896

Total Liabilities \$ 85,461

Total Fund Deficit as of December 31, 2009 \$ (4,522)

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable N. E. Reed, Edmonson County Judge/Executive  
The Honorable Larry Carroll, Edmonson County Clerk  
Members of the Edmonson County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Edmonson County Clerk for the year ended December 31, 2009, and have issued our report thereon dated July 14, 2010. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Edmonson County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item number 2009-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Edmonson County Clerk's financial statement for the year ended December 31, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items: 2009-02, 2009-03, 2009-04, and 2009-05.

The Edmonson County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Edmonson County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

July 14, 2010

## COMMENTS AND RECOMMENDATIONS



EDMONSON COUNTY  
LARRY CARROLL, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2009

INTERNAL CONTROL - MATERIAL WEAKNESS:

2009-01     The County Clerk's Office Should Strengthen Internal Controls Over Payroll

During our review of internal controls, we noted that the Clerk's office has a weakness in internal controls over payroll that should be strengthened. The following control deficiencies were noted:

- The County Clerk did not require timesheets be submitted to him for review before employees are paid.
- The County Clerk did not require timesheets be totaled weekly to ensure payroll payments are accurate.

No compensating controls were noted to offset any of these control deficiencies. Therefore, the control deficiencies as described above are significant deficiencies and material weaknesses. We recommend that the County Clerk require timesheets be submitted and reviewed by him before payroll is processed. He could document his review by signing the employees' timesheets. We also recommend that the County Clerk require timesheets be totaled to ensure payroll payments are accurate.

*County Clerk's Response: Disagree.*

Auditor Reply: Review of timesheets and control totals on timesheet are minimal controls but would do much to strengthen the Clerk's internal control over payroll.

STATE LAWS AND REGULATIONS:

2009-02     The County Clerk Should Eliminate The Deficit Of \$4,522 In His Fee Account With A Deposit Of Personal Funds

Based upon audit work performed, auditor determined there was a \$4,522 deficit in the County Clerk's official fee account for 2009. At year end, the Clerk did not have enough remaining funds to pay his 2009 obligation to the state for week 53 License Fees. The County Clerk's office paid the License Fees out of the County Clerk's 2010 official fee account. The County Clerk should monitor financial activity to ensure that current year revenues are sufficient to meet current year obligations. We recommend that the County Clerk eliminate the deficit of \$4,522 with a deposit of personal funds into the 2009 official fee account to reimburse the 2010 official fee account.

*County Clerk's Response: Edmonson Co. Fiscal Court has not reimbursed this office \$8,300.00 for 2009 audits. When this happens this \$4,522.00 along with an excess fee check for 3,778.00 will be given to fiscal court.*

Auditor Reply: The \$8,300 was for the Clerk's 2008 audit which was performed by a private CPA and the cost of which, according to KRS 64.810(2), is the responsibility of the County Clerk. Therefore, the \$4,522 is payable personally by the Clerk, not to Fiscal Court but to the Clerk's 2009 fee account to reimburse the 2010 account for this 2009 expenditure.

EDMONSON COUNTY  
 LARRY CARROLL, COUNTY CLERK  
 COMMENTS AND RECOMMENDATIONS  
 For The Year Ended December 31, 2009  
 (Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-03    The Clerk's Office Should Pay Overtime For Hours Worked Over Forty Hours During A Week

KRS 337.285(1) required employers to compensate employees for any hours worked "in excess of forty (40) hours in a workweek at a rate not less than one and one-half (1-1/2) times the hourly wage rate at which he is employed." During the test of payroll, we obtained documentation that three employees were not paid for hours worked in excess of forty hours during a work week. The Clerk currently compensates his employees on a salary basis regardless of hours worked. The auditor also discovered the County Clerk's employees and other individuals were working after office hours as contract labor for scanning and indexing records to include on the County Clerk's website. Employees were being compensated on a flat rate for scanning and indexing records instead of being compensated hourly. The auditor could not determine that the Clerk's employees qualify as salary-exempt under section 3 of 803 KAR 1:070. As a result, deputies' wages may be understated, the current year deficit may be understated, and the County Clerk's office may not be in compliance with KRS 337.285(1). Because we were unable to determine if the additional wages for overtime were owed, we have referred this matter to the Kentucky Department of Labor for further investigation.

*County Clerk's Response: This issue has been corrected.*

2009-04    The County Clerk Overspent The Maximum Amount For Deputies And Assistants Set By Fiscal Court By \$21,163

During our audit, we noted the Edmonson County Clerk overspent his maximum salary limitation as fixed by the Fiscal Court by \$21,163. The Edmonson County Fiscal Court fixed the Deputies' salary limit at \$139,407; however, the Clerk expended \$160,570.

KRS 64.530(3) states, "the fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant."

We recommend the Edmonson County Clerk monitor his payroll expenditures during the year and obtain any necessary amendments, before year end.

*County Clerk's Response: Disagree.*

Auditor Reply: Regardless of whether the Clerk agrees or disagrees, the maximum salary limitation is statutory.



EDMONSON COUNTY  
LARRY CARROLL, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2009  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2009-05     The County Clerk's Office Had Unsupported Payroll Disbursements of \$24,600

Our testing revealed \$24,600 of unsupported payroll disbursements. These disbursements were made for employees and other individuals working as contract labor for scanning and indexing records to include on the County Clerk's website. Employees and other individuals were allowed to be paid without providing adequate documentation of work performed. The auditor notes these payments were reported on 1099-MISC forms. However, \$1,500 of these expenditures were omitted from the 1099-MISC reporting. In addition, according to IRS Publication 15A, Circular E, an individual must be distinguished as either an employee or an independent contractor, not both. If the individual is distinguished as an employee, all compensation is considered wages and is subject to applicable withholdings. We have referred this matter to the Kentucky Department of Labor for further investigation.

*County Clerk's Response: Disagree.*

Auditor Reply: In order to be allowable, disbursements must be necessary, adequately documented, reasonable in amount, beneficial to the public, and not personal expenses in nature [Funk vs. Milliken, 317 S.W. 2d 299 (KY 1958)]. In the case of payroll disbursements, documentation should take the form of time records or evidence of number of projects completed if paid for piece work. Such records were absent.

